Strategic and Scenario Planning in Ranching:
Managing Risk in Dynamic Times

Roger Gates

Managing Risk on the Ranch
Lincoln, NE
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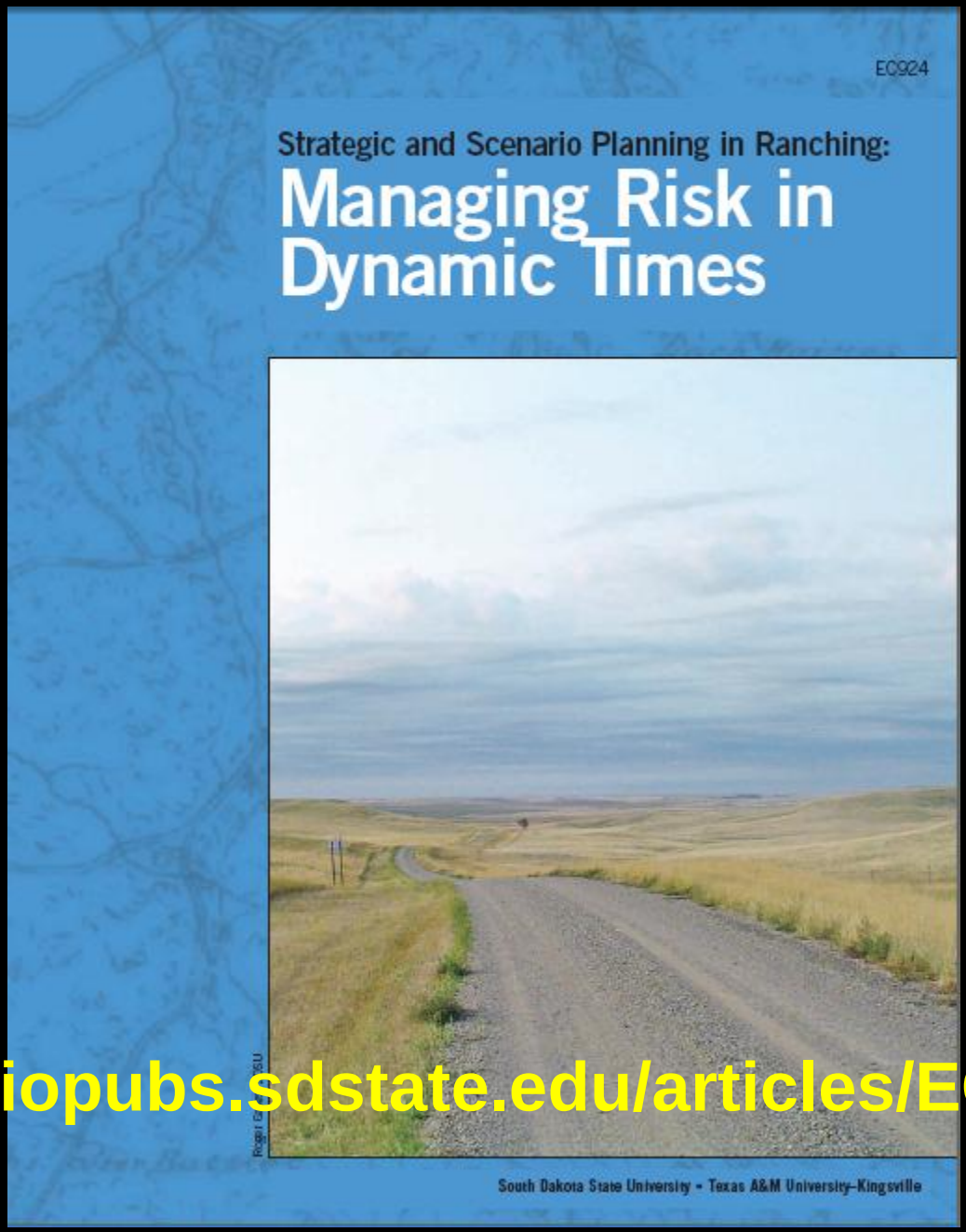
Barry H. Dunn
Executive Director and
Associate Professor
King Ranch Institute for
Ranch Management
Texas A&M University-Kingsville

Martin Beutler
Ranch Economist and Professor
SDSU West River Ag Center,
Rapid City
South Dakota State University

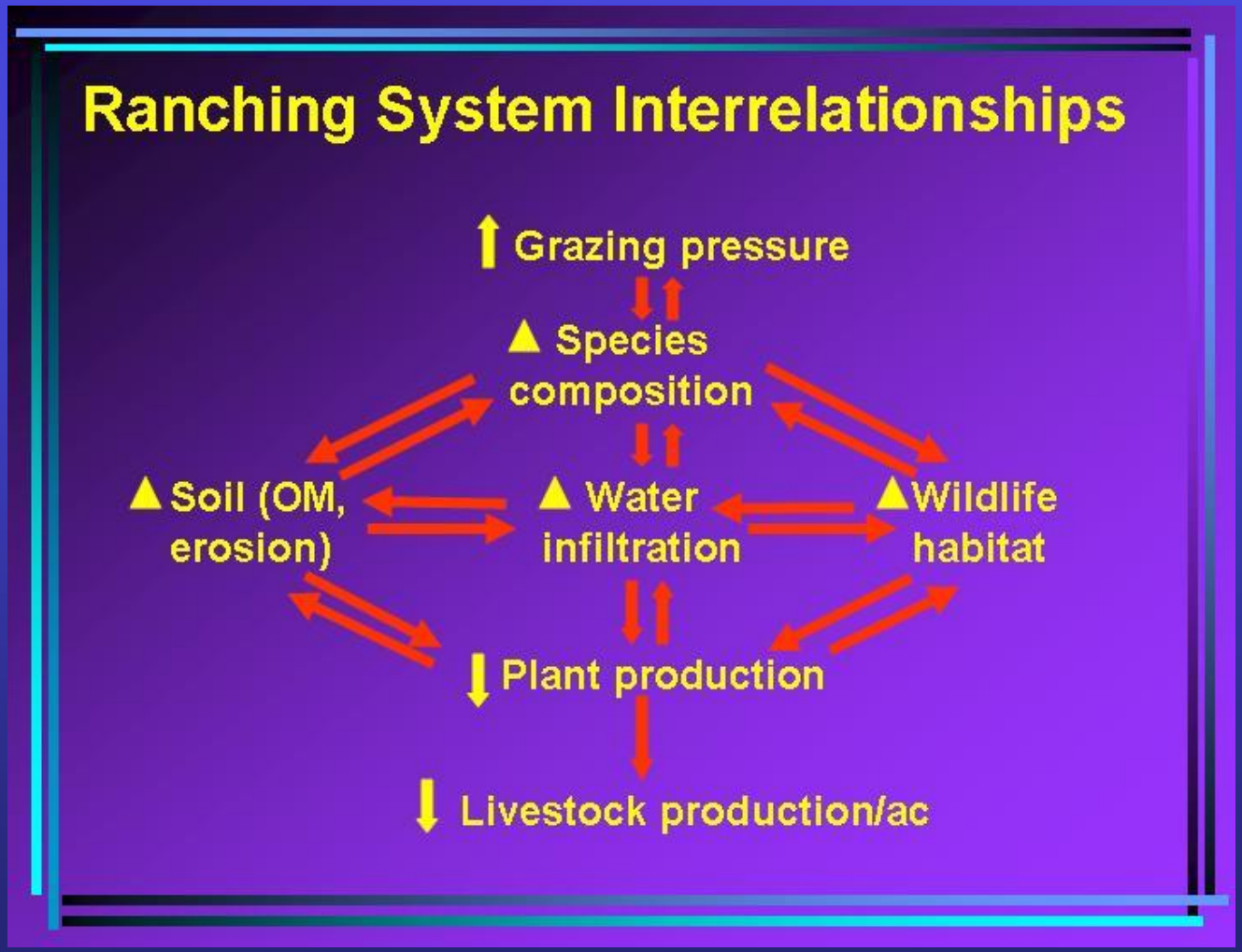
Agustin Arzeno
Senior Business Analyst
AgStar Financial Services
Apple Valley, Minnesota


Reducing Risk on the Ranch:
Developing a Drought Planning
Guide for Livestock Producers



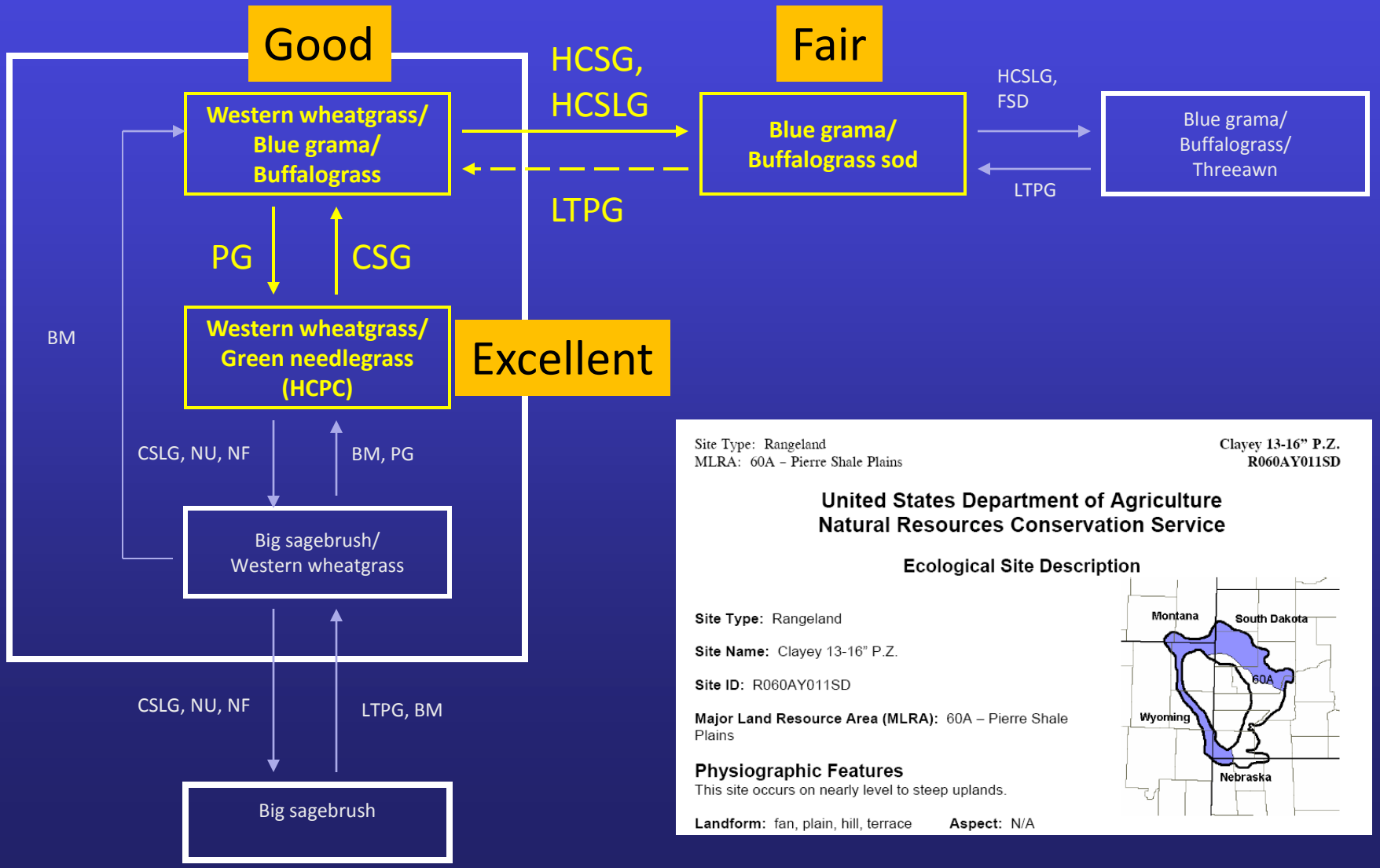
http://agbiopubs.sdstate.edu/articles/EC924.pdf

Systems Processes



Range livestock production systems are very complex

State-and-Transition Model



Site Type: Rangeland
MLRA: 60A – Pierre Shale Plains

Clayey 13-16" P.Z.
R060AY011SD

United States Department of Agriculture
Natural Resources Conservation Service

Ecological Site Description

Site Type: Rangeland

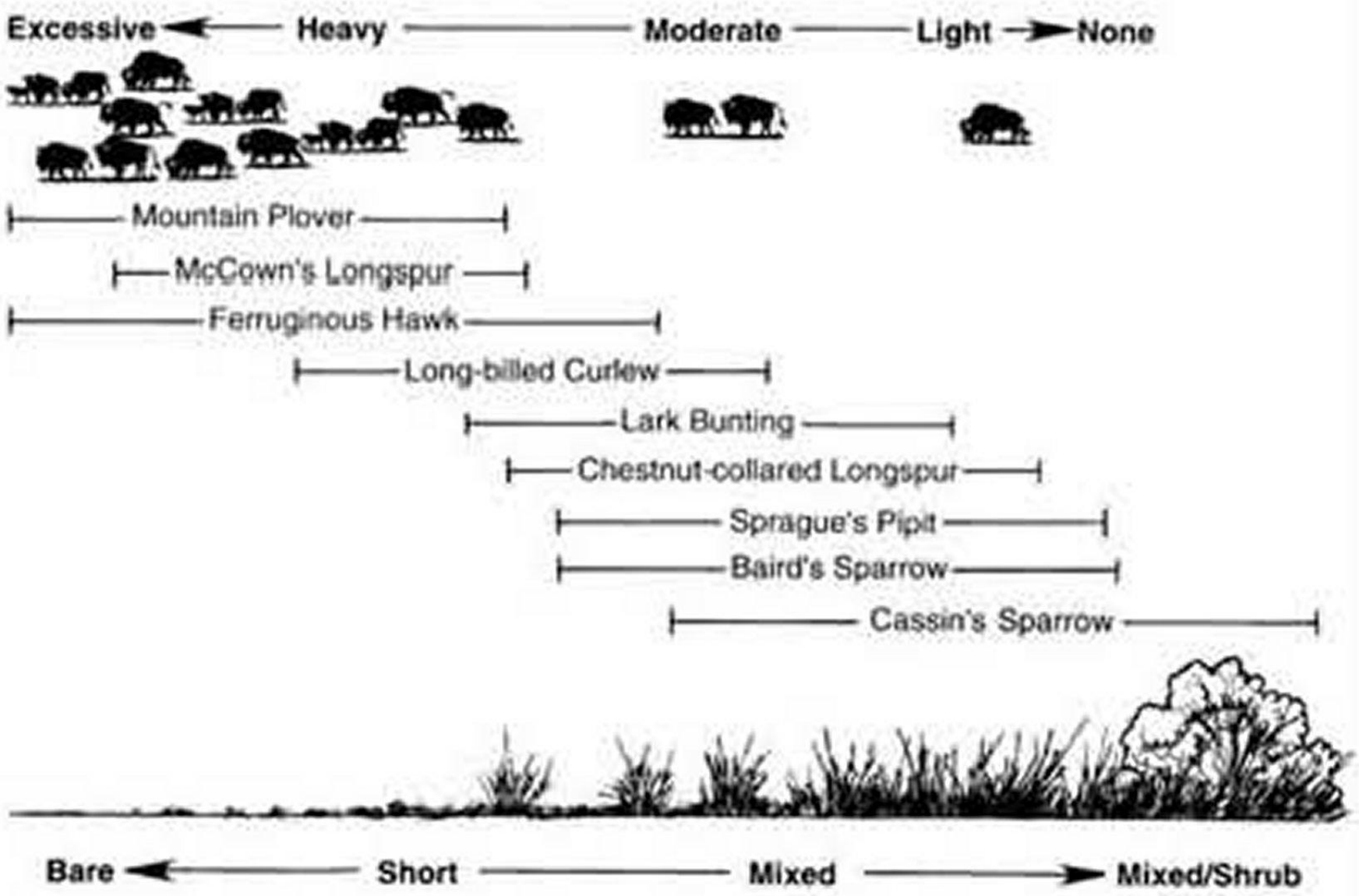
Site Name: Clayey 13-16" P.Z.

Site ID: R060AY011SD

Major Land Resource Area (MLRA): 60A – Pierre Shale Plains

Physiographic Features
This site occurs on nearly level to steep uplands.

Landform: fan, plain, hill, terrace **Aspect:** N/A

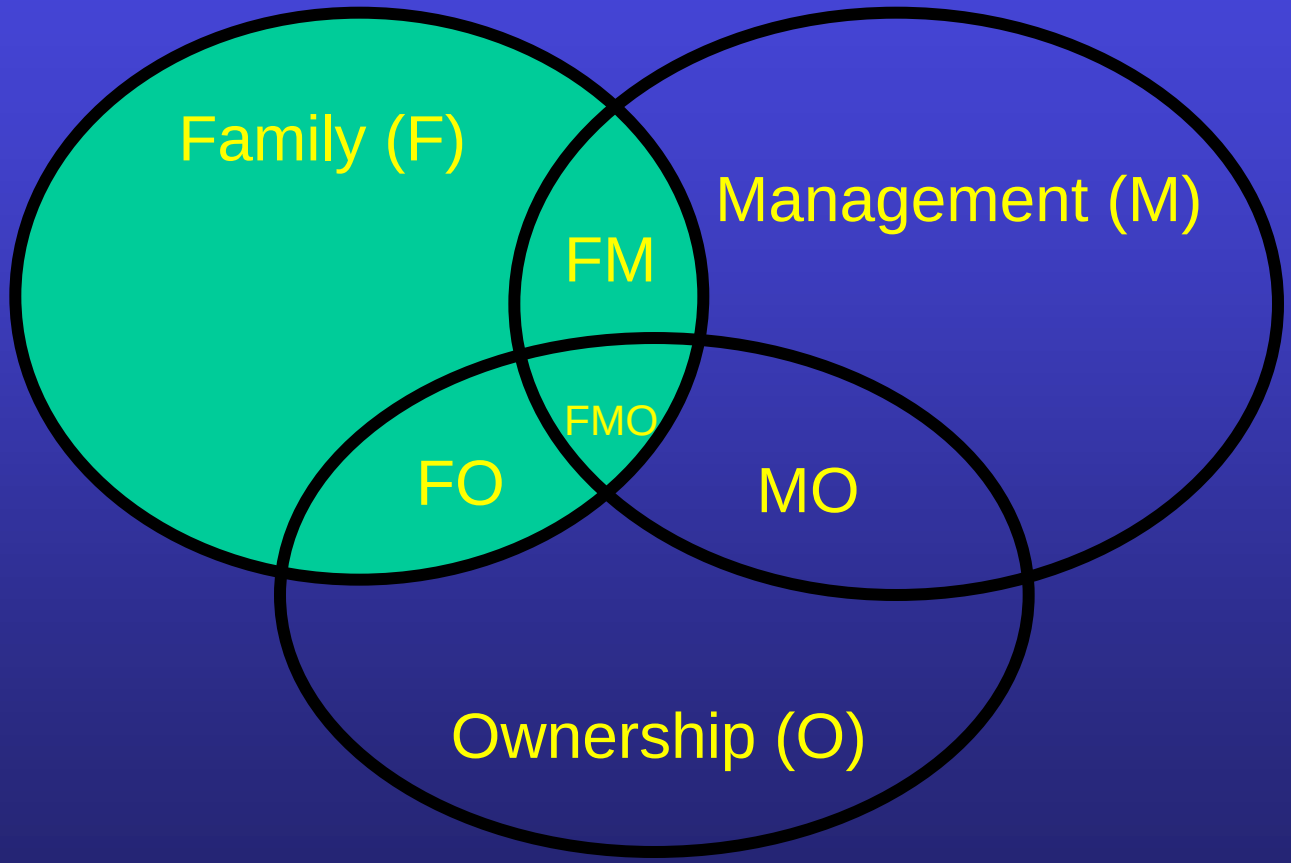

Excessive
Heavy
Moderate
Light
None
Mountain Plover
McCown's Longspur
Ferruginous Hawk
Long-billed Curlew
Lark Bunting
Chestnut-collared Longspur
Sprague's Pipit
Baird's Sparrow
Cassin's Sparrow
Bare
Short
Mixed
Mixed/Shrub

Knopf 1996

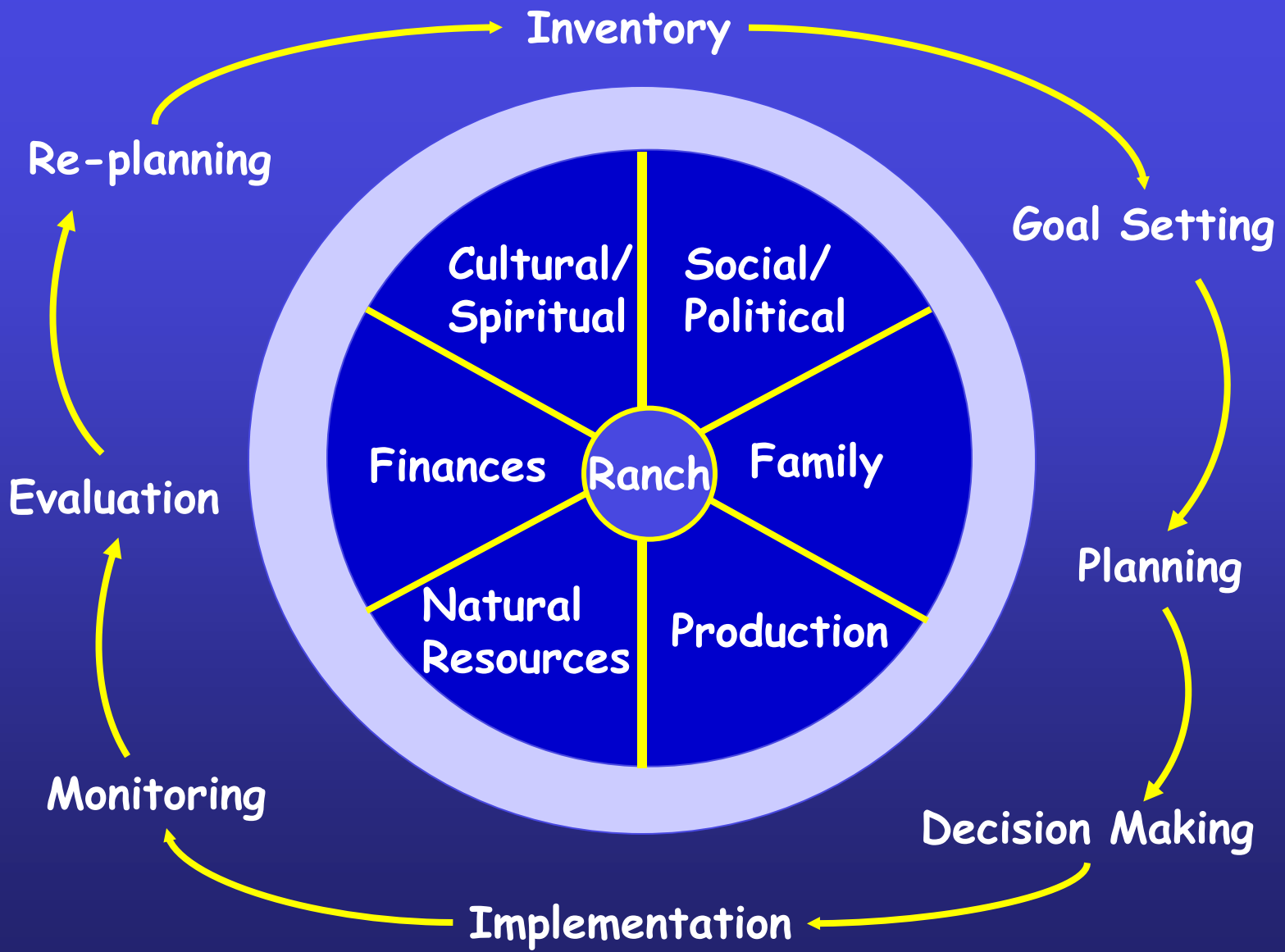
Complex systems:

Consequences are remote in time… and space

Family and Business Systems

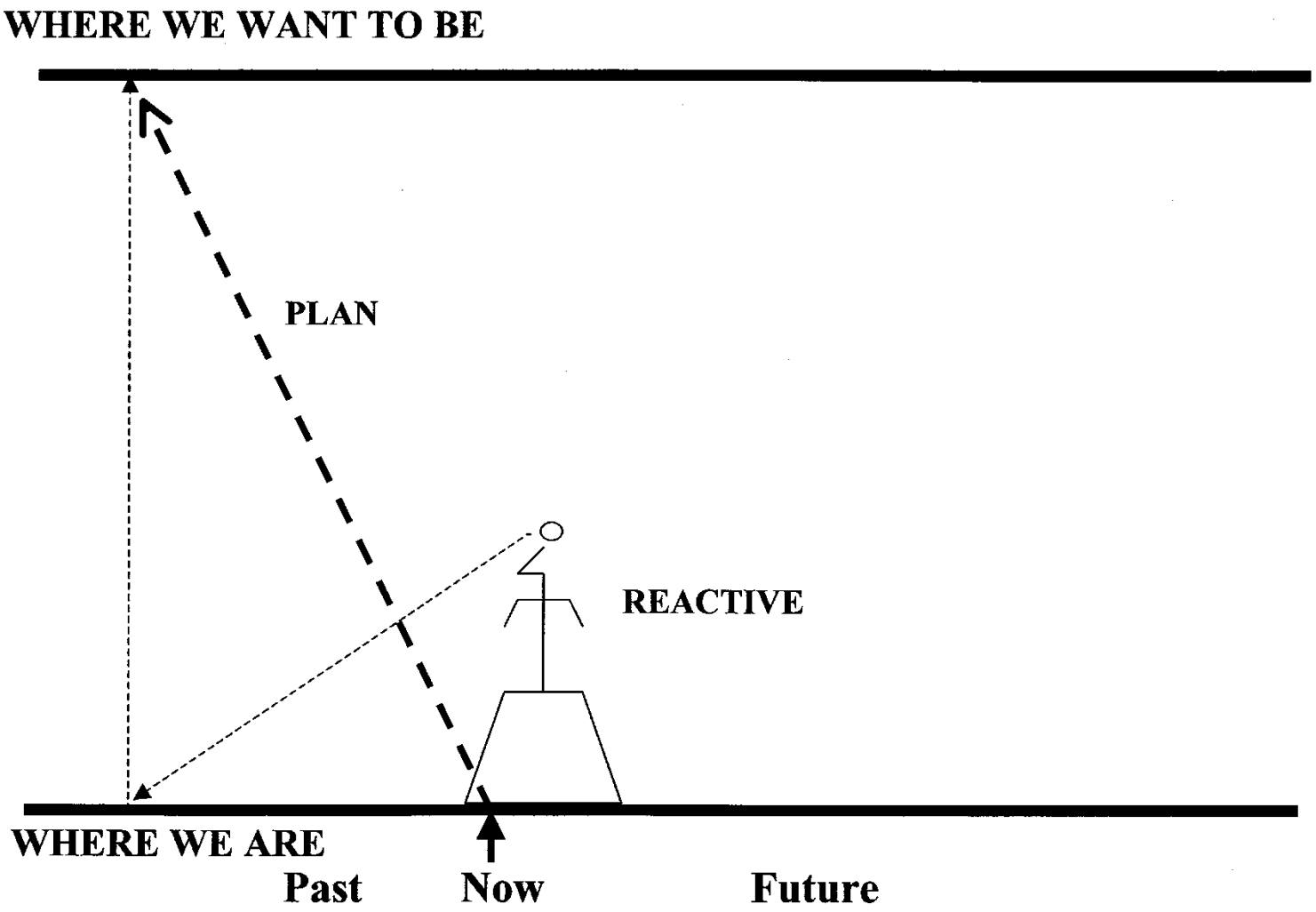


Decision Making Process

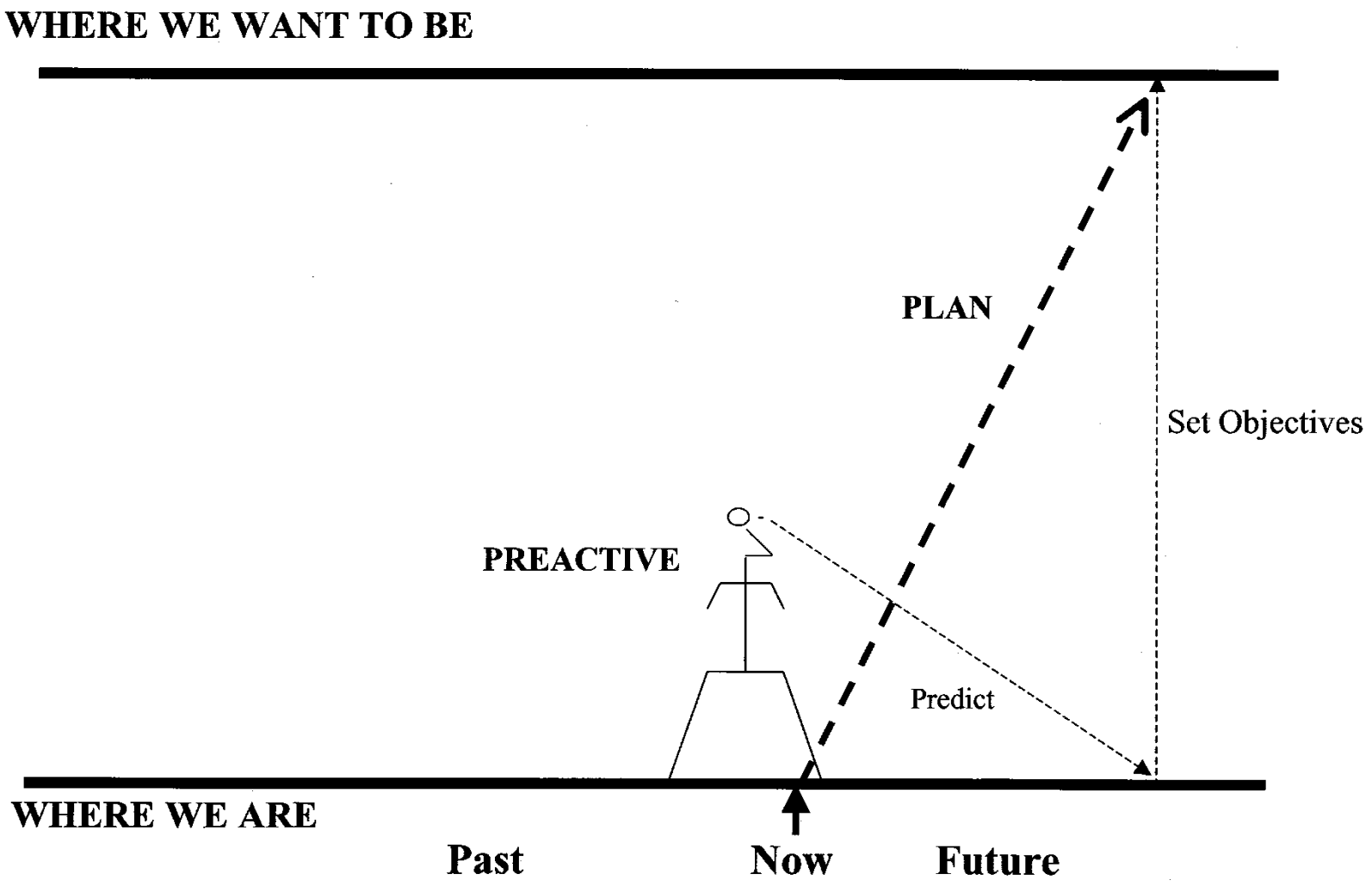


Barry Dunn, 2002

Reactive Planning



Preactive Planning




"The best way to predict the future is to create it"
Peter Drucker,
management consultant, author

Figure 13. Example of completed Balanced Scorecard.

Perspectives with Strategic Objectives	Goal	Actual
Ranch Lifestyle		
1. Healthy, happy family	Yes	Yes
2. Sense of security	Yes	No
3. Low stress	Yes	No
Financial		
1. ROA	8%	6%
2. $ net income	$200,000	$204,000
3. Breakeven	$0.75	$0.73
4. Current ratio	2:1	2:1
5. Free cash flow	50,000	47,000
Customer		
1. Feedback good	Yes	Yes
2. Repeat customer	Yes	Yes
3. Customer inquiry	Yes	Yes
Ag Commodities/Production		
1. Lb weaned/cow exposed	500	520
2. Preg %	94	92
3. Replacement rate %	15	17
4. Cow BCS at weaning	5+	5+
5. Days fed harvested feed	85	98
6. % calves born in first 21 days	65	55
7. $ vet/cust weaned calf	$0.02	$0.03
8. Cattle ID	Yes	Yes
Natural Resources		
1. Stocking rate = carrying capacity	Yes	Yes
2. Prescribed burn	Success	Success
3. Residual forage adequate	Yes	Yes
4. Noxious weeds treated	Yes	No
5. Precip as a % normal	110	90
6. Range condition score	Improving	Steady
7. Photo pts compared	Improving	No Change
8. Grouse count	Increasing	Increasing
Learning and Growth		
1. Attend RBCS	Yes	No
2. Attend KRIRM symposium	Yes	Yes
3. Participate in grazing school	Yes	Yes

CONTENTS

"All successful people have a goal. No one can get anywhere unless he knows where he wants to go."

—Norman Vincent Peale, author, "The Power of Positive Thinking"

"If you don't know where you are going, you are certain to end up somewhere else."

—Yogi Berra

Complete an Inventory

Figure 1. Inventory Worksheet to identify current ranch resources.

Category: Financial Resources

Category: Physical Resources

Category: Natural Resources

Category: Human Resources

Figure 3. SWOT Analysis Worksheet

Strengths	Weaknesses
1. 2. 3. 4. 5.	1. 2. 3. 4. 5.
Opportunities	**Threats**
1. 2. 3. 4.	1. 2. 3. 4.

Figure 2. Example of SWOT

Strengths	Weaknesses
1. Rotational grazing system 2. Low cost producer 3. College degree	1. Grazing system is labor intensive 2. Poor marketing efforts 3. Lack of good pasture watering system
Opportunities	**Threats**
1. Young person graduating from college who wants to get started in ranching 2. Nearby ethanol plant opening 3. Hunting and fishing opportunities	1. Lack of labor availability 2. Prolonged drought 3. Rising corn prices

Figure 2. Example of SWOT

Strengths	Weaknesses
1. Rotational grazing system	1. Grazing system is labor intensive
2. Low cost producer	2. Poor marketing efforts
3. College degree	3. Lack of good pasture watering system
What is your "unfair advantage"?	
Opportunities	**Threats**
1. Young person graduating from college who wants to get started in ranching	1. Lack of labor availability
2. Nearby ethanol plant opening	2. Prolonged drought
3. Hunting and fishing opportunities	3. Rising corn prices

Establish the Vision

Figure 4. "What do we want?" Worksheet

1. If our ranch could be anything we can imagine eight years from now, what would that be?

2. What new activities will our ranch business be pursuing? What business(es) will we be in? Are there new products we would like to produce or activities we would like to be involved in?

3. What will be the important concerns of our customers eight years from now? How do we meet their demands and desires?

4. How will our ranch business excel?

5. What will be the roles and responsibilities of family members and ranch employees?

6. What is of greatest value to family members? To the ranch business?

"[...] operate a profitable, authentic working cattle ranch by 1) obtaining premiums on cattle sales; 2) being innovative in developing and preserving deeded rangelands, hayfields, and improvements; 3) implementing best practices in operations; 4) supplementing income with an integrated guest operation; and 5) being responsible stewards of private and public lands."

—Horse Prairie Ranch near Dillon, Mont.

"We progressively realize goals in a fun, challenging, encouraging environment and continually improve people, products, services, the ranch, our community, and the ecosystem while sustaining a net profit."

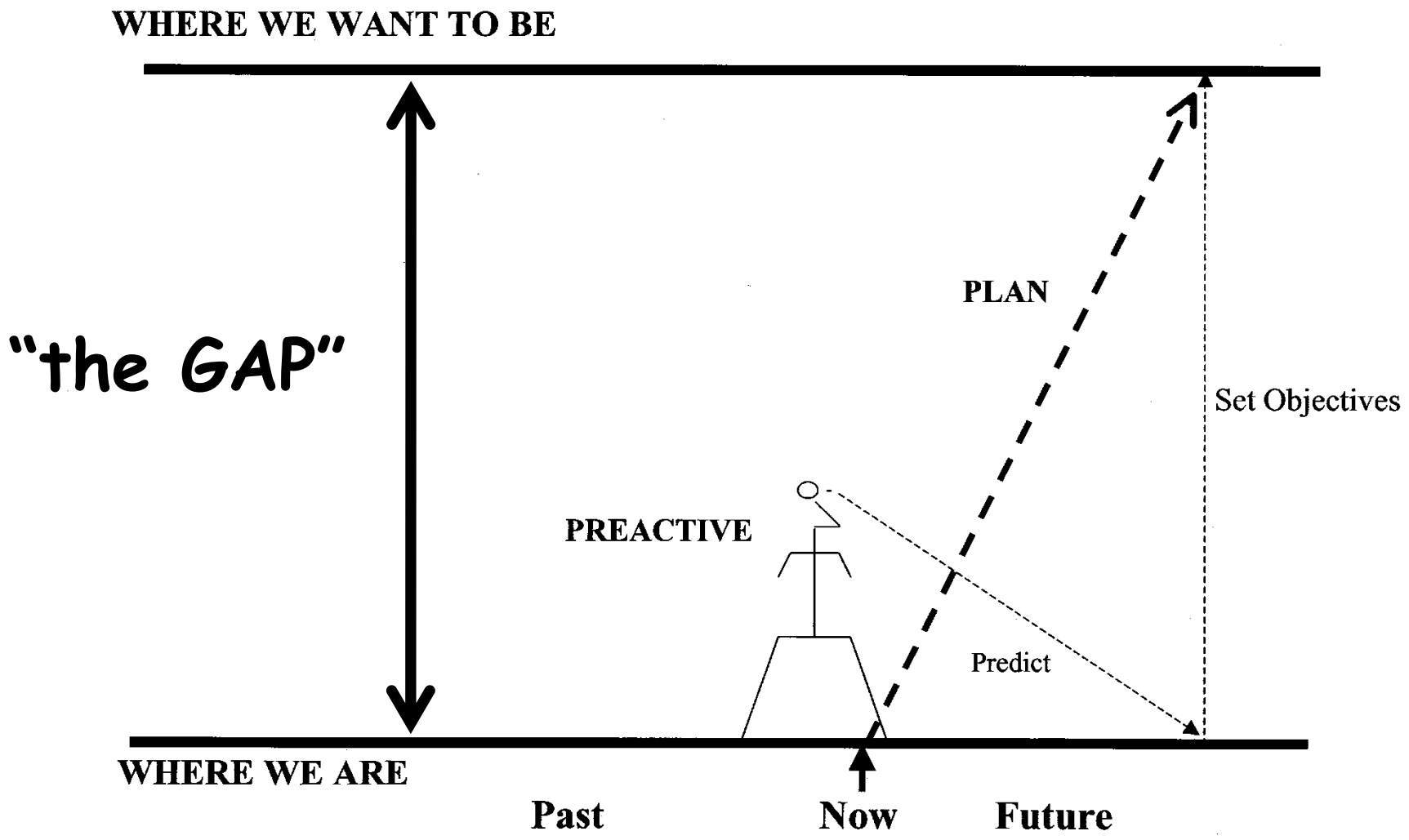
—Paint Rock Canyon Enterprises, Hyattville, Wyo.

“To operate a profitable ranch while improving the natural resources available and pass the ranch to the next generation in better condition in all facets.”

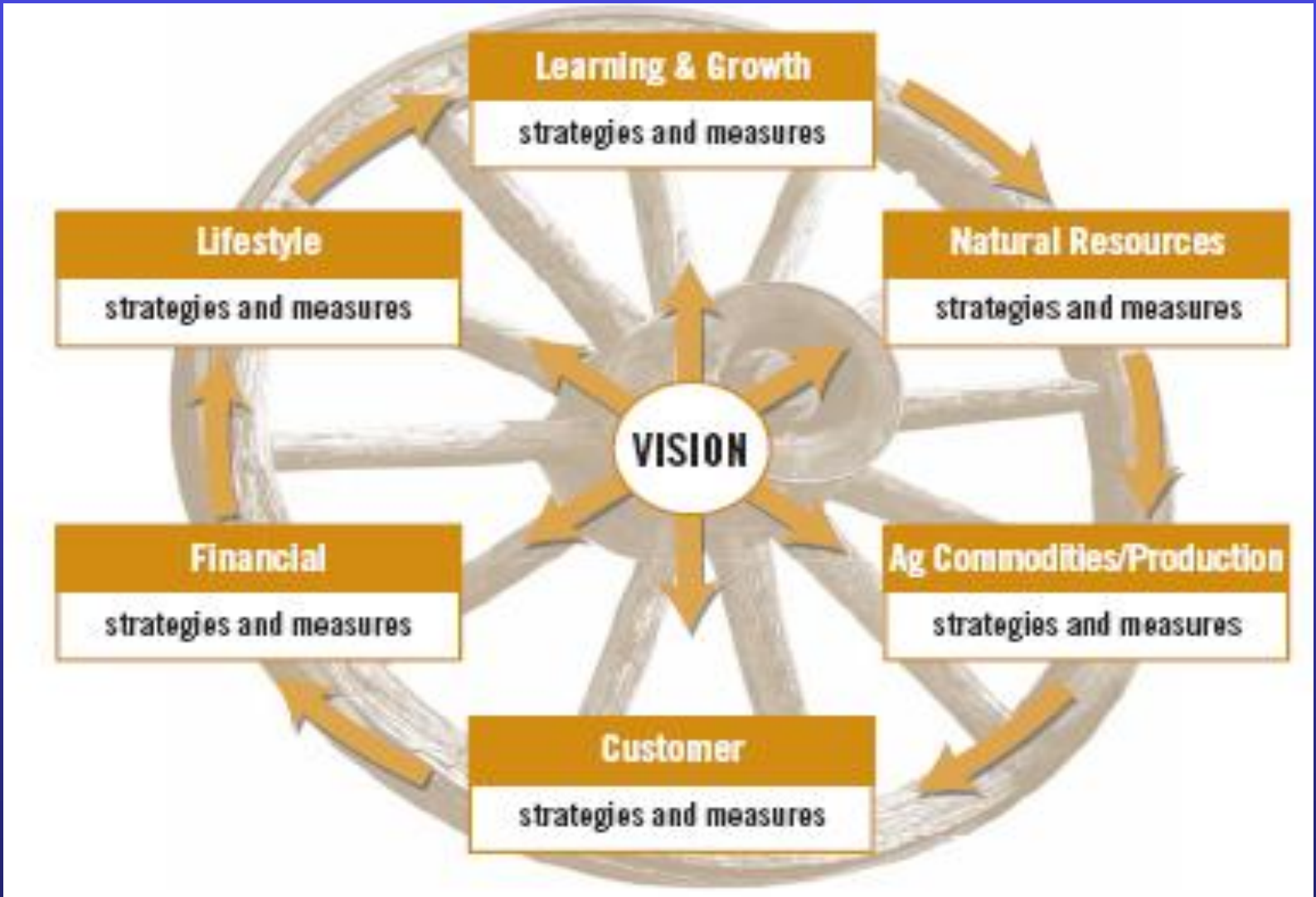
“The ranch
is not for sale”

GAP analysis

Preactive Planning



Ranch Wheel


Learning & Growth
strategies and measures
Lifestyle
strategies and measures
Natural Resources
strategies and measures
VISION
Financial
strategies and measures
Ag Commodities/Production
strategies and measures
Customer
strategies and measures

Develop strategies to close the gap

-Learning & Growth
-Natural Resources
-Ag Commodities/Production
-Customers
-Financial
-Ranch Lifestyle

Describe multiple scenarios

"brainstorm"

Figure 7. Example list of situations that may be of interest or concern

1. **Example 1:** *labor supply is dwindling*
2. **Example 2:** *lease rate of summer pasture increasing*
3. **Example 3:** *neighboring pasture land is for sale*

Describe multiple scenarios

research/develop background

Figure 9. Example of revised list of fully developed, most-probable scenarios.

Example Scenario 1: *labor supply is dwindling and cost are rising*

- *Due to expanding oil and gas well drilling, good hands will be tempted to work in the oil fields rather than on the ranch.*
- *Oil reached $78/barrel and is expected to increase.*
- *Health insurance rates increased*
- *Bunkhouse needs repair*
- *Minimum wage increased*

Example Scenario 2: *Transportation costs will rise*

- *Price of diesel reached $3/gallon*
- *Favorite trucker called and has raised his prices per loaded mile*
- *A second local trucker quit the business*
- *State raises fuel tax to fix roads*
- *County puts load restrictions on more roads*

Example Scenario 3: *Market premiums for source-, age-, and process-verified feeder cattle*

- *Reputation feeder cattle that are verified received $20/cwt premiums in last video auction*
- *Last year's buyer called and requested paper work verifying age of cattle*
- *Local sale barn has encouraged me to keep better records*
- *Extension specialists publish recommendations on how and which to keep*
- *BQA re-certification course offered*

Select likely scenarios
- assign probability

Select those that have greatest potential impact

Merging Strategies and Scenarios

Figure 11. Example strategic planning/scenario planning matrix

	Scenario 1 *Transportation costs rise*	**Scenario 2** *Process Verified Premium*	**Scenario 3** *Labor Costs rise*	**Scenario 4**
Learning & Growth				
Strategy 1	+	+	-	
Strategy 2	0	+	0	
Natural Resources				
Strategy 1	-	-	+	
Ag Production				
Strategy 1	0	+	0	
Strategy 2	-	-	0	
Strategy 3	+	0	-	

Implementing Your Strategic Plan

Implementing Strategic Plan

Measuring Sucess

“Even if you’re on the right track, you’ll get run over if you just sit there.”

—Will Rogers

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Leading or Lagging?

- Lagging Indicators have already happened.
  - Measure past performance.
  - Things you cannot change.
- Leading Indicators are in the future.
  - Future performance
  - Drivers

Is it leading or lagging?

- Weaning Weight
- Potential cattle buyer inquiry
- ROA

- Lagging
- Leading

- Lagging

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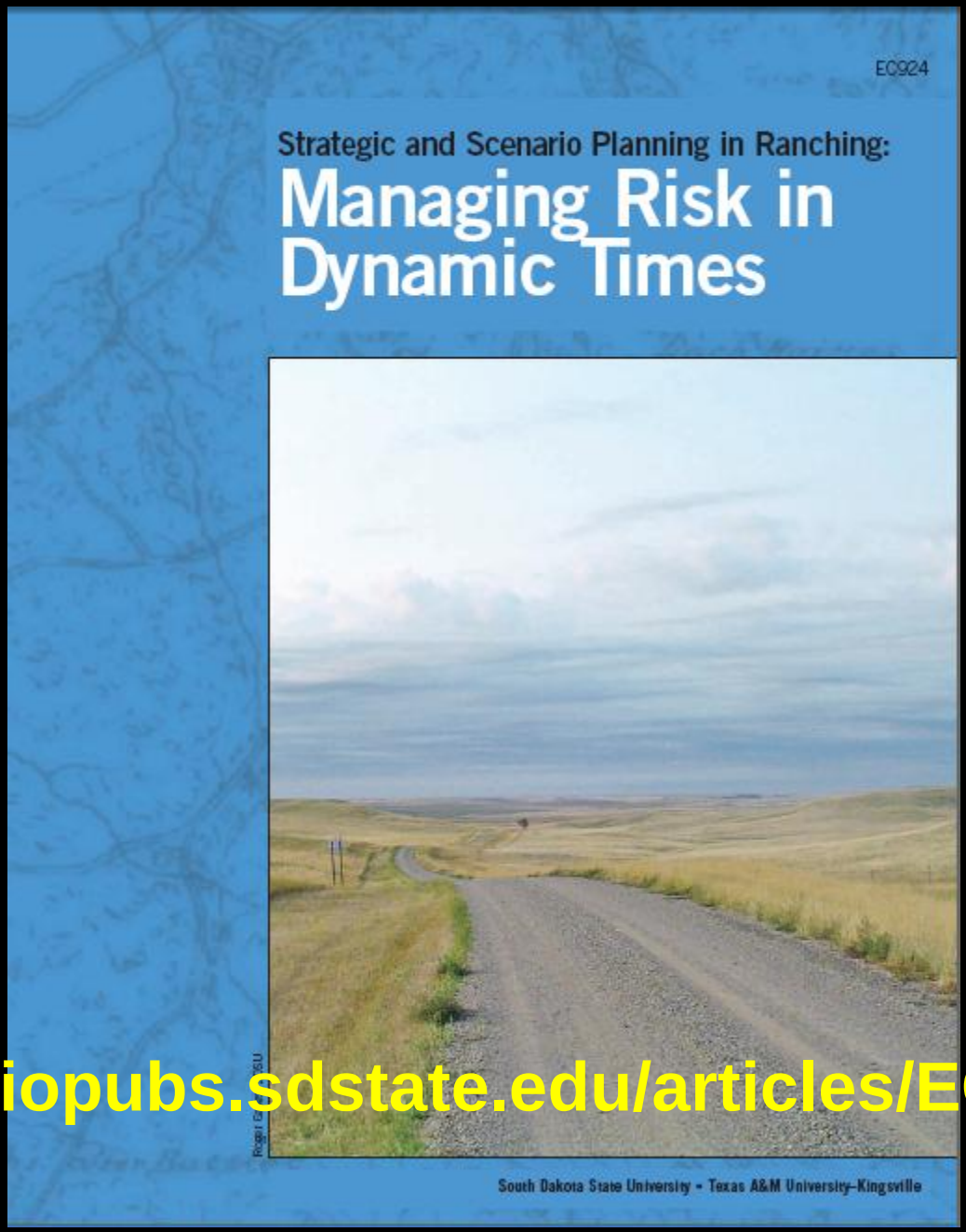
“More than anything, we believe the best way to predict the future is to invent it. We feel the confidence to shape our destiny.”
- John Scully,
CEO of Apple Computer



http://agbiopubs.sdstate.edu/articles/EC924.pdf

1969-2002

Range Condition	SR	ADG	Gain	Gross	Cost	Profit
	AUM/ha	kg/d	kg/ha	$/ha	$/ha	$/ha
Excellent/Good+	0.89[B]	0.73[B]	26.91[B]	40.77[B]	17.76[B]	23.01[B]
Good/Fair+	0.91[B]	0.77[A]	30.96[A]	47.64[A]	18.21[B]	29.43[A]
Fair/Poor+	1.00[A]	0.71[B]	31.37[A]	48.35[A]	20.74[A]	27.61[A]
P-value	<0.01	<0.02	<0.01	<0.01	<0.01	<0.01
Stderr	0.020	0.016	0.894	1.387	0.545	1.082

[A,B] Means within a column followed by a different letter are significantly different (P<0.05)